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STATE PASS USTR FOR DUSTR BHATIA

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SUBJECT: DEPUTY USTR BHATIA'S MEETING WITH TAIWAN PRESIDENT
CHEN SHUI-BIAN, MAY 26, 2006

Classified By: AIT Deputy Director David J. Keegan,

Reasons: 1.4 (b/d)

¶11. (C) Summary: President Chen told DUSTR Bhatia that Taiwan is interested in an FTA for economic reasons and is prepared to take steps needed to further open its market. Bhatia stressed the difficulties in an FTA and explained that it would be more practical to negotiate agreements in specific areas such as a bilateral investment agreement. Bhatia agreed to look into Chen's suggestion to consider a Closer Economic Partnership Agreement (CEPA) as an alternative to an FTA, but he pointed out that any comprehensive agreement would require Congressional approval and would be subject to TPA limitations. Chen discussed Taiwan's step-by-step policy for developing cross-Strait direct air links, noting Taiwan's interest in charter cargo flights and blaming PRC political factors for slow progress. Bhatia pointed out that developing cross-Strait links will help Taiwan attract U.S. business because it will enhance Taiwan's access and involvement in the East Asian economy. Chen provided reassurances about maintaining the cross-Strait status quo and keeping his commitments over the next two years. End Summary.

¶12. (U) Deputy USTR Karan Bhatia, accompanied by the Director and Assistant USTR Tim Stratford met with President Chen Shui-bian at the Presidential Office on May 26. President Chen was accompanied by Presidential Office Secretary General Mark Chen, NSC Secretary General Chiou I-jen, Minister of Economic Affairs Huang Ing-san, and Vice Economic Minister Steve Chen. The first half of the meeting took place with the press present.

¶13. (U) Chen welcomed Bhatia and his delegation, noting that Bhatia was the highest level U.S. official to visit Taiwan in the last six years. Bhatia's visit has great significance and shows that the bilateral relationship and friendship has not been affected by the ceasing to function/apply of the National Unification Council/Guidelines and the transit issue. The visit also symbolizes the sincerity and will of the two sides to strengthen bilateral cooperation.

¶14. (U) Chen said he heard about the very positive atmosphere in the TIFA talks, adding that he was pleased that the talks have been resumed and that this round was being held in Taipei. Despite many setbacks, difficulties and challenges, both sides have made sincere efforts leading to this fifth round of TIFA talks.

15. (U) Taiwan and the U.S. are best allies in terms of shared values and also best partners in security and economic relations, Chen continued. Taiwan is the eighth largest trading partner and tenth largest export market for the U.S. Last year, U.S. exports to Taiwan totaled USD 22 billion, far exceeding figures for Singapore, Australia, Thailand, and Malaysia. This indicates the importance of Taiwan to the U.S. economy. The U.S. has emphasized economic integration in the Asia Pacific region, and it has also emphasized enhancing bilateral cooperation, including signing or discussing FTAs with Singapore, Australia, Thailand, Malaysia, and South Korea.

16. (U) Taiwan hopes the U.S. will seriously consider signing an FTA with Taiwan, Chen said. South Korea's economic development is very similar to Taiwan. If South Korea can sign an FTA with the U.S., why can't Taiwan do likewise? Taiwan is prepared for the challenges and strongly committed to opening its market for an FTA. Under WTO, average tariffs in U.S.-Taiwan trade have decreased greatly, Chen acknowledged, but there needs to be progress in areas such as agricultural products, services, and automobiles. According to an assessment of the U.S. International Trade Commission, if the U.S. signed an FTA with Taiwan, its agricultural, fishery, and automobile exports to Taiwan would increase 100 percent. The increased openness would also enhance U.S. opportunities in government procurement and investment. Chen stressed that Taiwan's consideration in seeking an FTA is based on economic and trade interests, not on political considerations. Because there are few political considerations regarding an FTA, this is an issue on which

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both the ruling and opposition parties in Taiwan have consensus; all want an FTA.

17. (U) Chen said he had noted remarks by Bhatia that the U.S. hoped to increase trade and economic cooperation with Taiwan but not necessarily through an FTA. Instead of focusing on an FTA, Bhatia had suggested that the focus should be on the substance of enhancing economic and trade ties, Chen noted. One possibility would be to have a Closer Economic Partnership Agreement (CEPA) instead of an FTA. Chen suggested that no matter whether an FTA or a CEPA, there would be additional benefits beyond economic effects: such an agreement would ensure that Taiwan is not isolated internationally and that China cannot blockade or squeeze Taiwan out of the international economy.

18. (U) Chen expressed appreciation for U.S. support for Taiwan's participation in WTO and in important regional organizations such as APEC. The U.S. has also supported Taiwan's bid for participation in WHO and to become an observer at the WHA, Chen said, adding that two years ago the U.S. voted in favor of Taiwan at the WHA. Although Taiwan failed again this year in its bid, it is grateful to the U.S. and President Bush for their support.

Chen Reaffirms Previous Commitments

19. (U) Chen asked Bhatia to forward his regards to President Bush, and he reaffirmed that his assurances and promises to President Bush and the U.S. remain unchanged. Taiwan will strive to defend the status quo of Taiwan's democracy, freedom, and human rights, and the status quo of peace and stability in the Taiwan Strait. Taiwan will not unilaterally change the status quo nor will it allow the status quo to be changed by an external force. For the remaining two years of his term, Chen pledged to continue cooperation with the USG and to move forward in the relationship. There are still many issues involving our mutual interests, and Taiwan wants to walk hand-in-hand in cooperating with the U.S.

TIFA Reinforces Economic Ties

¶10. (U) Bhatia expressed appreciation for the warm welcome and conveyed greetings from President Bush and USTR Portman. Bhatia said he was delighted to have an opportunity to return to Taipei to conduct talks under the TIFA. There has been a very good dialogue in the talks, and Bhatia was hopeful they would reach a very successful conclusion. The TIFA dialogue demonstrates and reinforces the strong economic ties between the U.S. and Taiwan. Annual bilateral trade in goods totals USD 60 billion and there is an additional USD 10 billion in trade in services. What is most encouraging is that these numbers are increasing as the U.S. and Taiwan economies continue to grow. The U.S. looks forward to the continued strengthening of economic relations, and addressing the topics that are being discussed in the TIFA talks will help further enhance economic ties.

¶11. (U) The TIFA talks have a vigorous agenda, ranging from pharmaceuticals and IPR protection to agricultural trade, Bhatia explained. He noted that Chen's advisors had told him that the President was personally interested in ensuring the success of the TIFA talks, and he expressed appreciation for the assistance provided by President Chen and the Taiwan team.

Multilateral and Regional Trade Issues

¶12. (U) In addition to bilateral topics, our two sides discussed multilateral and regional trade issues, Bhatia continued. One important challenge is the successful conclusion of the Doha Round of WTO negotiations. The U.S. appreciates Taiwan's strong participation and looks forward to continued partnership as we strive for the ambitious outcome of the Doha Round. A successful outcome will reduce poverty worldwide and have a positive impact on the integration of all WTO economies, including Taiwan and the U.S. Bhatia expressed appreciation for Chen's recognition of strong U.S. support for Taiwan in the WTO and other international organizations, and he assured Chen that we would continue to remain strong partners. Similarly, the

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U.S. and Taiwan are strong partners in APEC, an institution that we believe is very important. Bhatia noted that from Taiwan he would be heading to a meeting of APEC trade ministers and said he looked forward to strong cooperation there with Taiwan as always.

Bhatia Responds on FTA

¶13. (U) Bhatia said he understood and appreciated Taiwan's interest in signing an FTA with the U.S. In that respect, Taiwan is like many other U.S. trade partners. The USTR office has a very active trade agenda. The principal objective is successfully concluding the Doha Round, and there are also ongoing bilateral negotiations with a number of countries. The challenge is that trade negotiating authority expires in July, 2007. This short period of time makes it a very hard challenge to start any new FTA talks. Nonetheless, the U.S. is very interested in seeking ways to deepen the economic relationship with Taiwan and make important progress in the TIFA talks. The U.S. is not taking anything off the table and hopes to work with Taiwan in concrete and meaningful ways to strengthen trade and investment ties. Our hope is that the TIFA talks will help in moving forward and laying groundwork for strengthening trade and investment relations.

¶14. (U) Chen acknowledged his personal interest in enhancing the economic and trade relationship, noting that he had held an NSC meeting prior to his meeting with Bhatia in order to be briefed on the issues. Taiwan is dealing with utmost

sincerity with long-term issues such as agriculture, pharmaceuticals, telecom, and IPR. Although Taiwan has made a great deal of effort on relevant issues, perhaps it has not done enough and there is room for further improvement. Chen expressed appreciation for the USTR and USG assistance in helping Taiwan join the WTO in January 2002. Taiwan worked hard to prepare for acceptance by the WTO, knowing that if the world market opened to Taiwan, Taiwan would also have to open to the world. Especially on the issue of opening the Taiwan market for agricultural products, there was considerable domestic pressure and concern. However, Taiwan was easily able to endure the shock and impact of market opening because of its determination and the steps it took to be fully prepared.

¶15. (U) Chen assured Bhatia that, as in the case of WTO, Taiwan is ready to implement complete, full-scale liberalization if it can sign an FTA with the U.S. Chen said he was pleased to hear the U.S. was not excluding any possibility and he noted that Bhatia had said that the substance was more important than the form of cooperation. Chen stressed his hope to see the continued bolstering of economic and trade ties between the U.S. and Taiwan. Chen asked Bhatia's views on the TIFA talks, whether he saw issues or questions of interagency coordination where Taiwan needed to improve its work.

Cross-Strait Economic Relations

¶16. (U) Bhatia responded that he hoped the two sides would reach an understanding on the path forward in important areas including pharmaceuticals, IPR, and agricultural trade. Another area of discussion in the TIFA and bilateral meetings has been the issue of ensuring that Taiwan remains fully integrated in the rapidly growing East Asian economy. In this context and also as a bilateral topic involving the participation of U.S. companies in the Taiwan market, the subject of cross-Strait economic relations has come up, Bhatia noted. Multinational companies view Asia as a whole. To compete as an economy, Taiwan needs to be well linked into all of the growth areas in East Asia. In that context, it is important to continue strengthening cross-Strait economic relations to ensure that Taiwan is an attractive place for U.S. and other companies that seek access to China and the other major economic areas in Asia.

¶17. (U) The cross-Strait issue is a very serious and important topic that concerns both Taiwan and the U.S., Chen noted. Chen said he had repeatedly stated that he hoped to normalize cross-Strait relations, starting with the normalization of cross-Strait trade and economic exchanges.

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For the past few years, Taiwan has implemented the mini-three links and assessed steps for further development. Although there are cross-Strait differences on political and diplomatic issues and China has relentlessly suppressed and blocked Taiwan internationally, Taiwan has never restricted or stepped back from developing cross-Strait economic activity. Taiwan's policy is to base itself in Taiwan and reach out to the world, and China is an important market. Taiwan cannot afford to isolate itself in the era of liberalization and globalization.

¶18. (U) Even the U.S. restricts exports and trade with China to a certain extent, Chen noted. Taiwan, in consideration of its national security and overall interests, needs to take a very careful approach to risk management, including political risk, in developing economic relations with the PRC. "Active management and effective opening" is a very important guiding principle for cross-Strait economic and trade relations and should not be viewed as meaning "tightening" or "opening." Chen said that he has reminded people, especially Taiwan businesspeople that Taiwan cannot close up, but it also needs to be careful not to put all economic resources in the single

market of China. Between Taiwan and the U.S., there is little restriction of economic activity. However, China is not a normal country, and cross-Strait relations require special management. If Taiwan becomes over-dependent on the China market, it will create difficulties for Taiwan's sustainable economic development and be a potential threat to Taiwan's security.

¶19. (U) For this reason, Taiwan wants to move one step at a time, even on direct links, Chen continued. Taiwan has adhered to its original timetable for opening direct links. Only after the mini-three links (between the offshore islands and the Mainland) were successful, then Taiwan could proceed to the three links. Now, the lunar New Year charter flights have been gradually implemented and expanded. When first implemented, these flights made an intermediate stop, but now the flights are direct, reciprocal, and non-stop. Taiwan is hoping to select more cities for future lunar New Year charter flights. Therefore, Chen said, it can be seen that there has been steady progress.

¶20. (U) On direct link charter flights, Chen continued, Taiwan wants to introduce cargo flights first and then passenger flights. While some businesses are concerned with their short-term interests, the government has to take all factors into consideration and look at the long term. The development of cross-Strait trade ties needs to be based on sustainable cross-Strait peace and stability, and Chen said that he had the duty to ensure peace and stability in the Taiwan Strait and avoid bringing Taiwan to the brink of war. Over the past six years, Chen stressed, he had honored this goal and commitment, and he would continue to do so over the next two years. Chen said he understood clearly the importance of maintaining peace and stability in the Taiwan Strait in order to attract more U.S. and other businesses to participate in the Taiwan economy.

¶21. (C) Following the departure of the press, Bhatia said he understood the complex challenges facing Taiwan and was pleased to see the growth of cross-Strait economic relations and Taiwan's determination to continue down that path. When the East Asian economy is changing so quickly, it is important for business to see Taiwan linking to the greater regional economy. Direct cross-Strait air links are important to business for access to markets and factories, and also important for lending a sense of stability to the greater economy. This will build support and confidence in the U.S. business community in Taiwan, which will be important as we work to deepen the bilateral economic relationship. The U.S. is ready to support Taiwan in this endeavor.

¶22. (C) Nothing is impossible, Chen suggested, but there needs to be a cautious step by step program. Just as Taiwan has put aside political considerations and taken an economic and trade approach to the FTA issue, Taiwan also believes that it is better to start with cargo flights in opening direct cross-Strait air links. Regrettably, China is not much interested in cargo flights but more interested in passenger flights because "people talk and cargo does not talk." Why is China injecting an unnecessary political issue

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into the direct air links question, Chen asked. Taiwan has been ready to open to PRC tourists for some years, Chen added, but there has been little progress because the Chinese government has been reluctant to open up. When there are enough tourists, then it will be necessary to discuss direct links further. So, Chen concluded, it is political considerations on the Chinese side that are delaying progress on economic ties and direct links. Most important, the governments of the two sides need to sit down and have dialogue, but China refuses to deal with the Taiwan government. Most issues related to cross-Strait economic relations and direct links involve government authorities. Without talking, progress is difficult. Chen thanked the

U.S. for repeatedly calling on China to hold dialogue with Taiwan's elected leaders.

The FTA Issue Again

¶23. (C) Strong cross-Strait relations are important, Bhatia said, and the U.S. has delivered the same message in Beijing.

Taiwan has always taken a very creative approach to strengthening the Taiwan economy, and we trust that will continue. Bhatia said he appreciated Chen's acknowledgment that strengthening bilateral relations does not necessarily need an FTA and there are other meaningful steps we can take together. An FTA is a collection of small agreements in different chapters on issues including IPR, government procurement, and investment. What is important is to have meaningful discussions and, potentially, agreements to address these core issues. This would have strong economic value for the U.S. and Taiwan, and would also strongly demonstrate the strength of our economic partnership. Following the TIFA talks, Bhatia suggested the two sides could think about, for example, negotiating a bilateral investment agreement.

¶24. (C) Chen expressed appreciation for the suggestion about a possible bilateral investment agreement. This would be the substance without the form of an FTA. Believing that Bhatia had also mentioned the idea of a CEPA (Note: He had not), Chen said he thought this was a good idea to consider. This would be a pragmatic approach to building relations. Before an FTA is possible, perhaps a CEPA could be considered, and this would serve as a good demonstration of the strength of economic relations. A CEPA would be in the interests of the two sides, according to Chen, and it would prevent Taiwan from being further isolated or marginalized economically.

¶25. (C) Bhatia said he would need to think about Chen's CEPA suggestion, which he would take back to Washington as a Taiwan proposal, adding that he could provide no response at this stage. Bhatia pointed out, however, that any comprehensive agreement requires congressional approval, and he also noted that the legal authority will be expiring. A bilateral investment agreement would be easier to attain, Bhatia said.

¶26. (C) Bhatia said he understood Chen's point that China's strategy is to marginalize Taiwan from an economic perspective. He noted that the Chinese had told him that they hoped he would not make this visit to Taiwan. However, Bhatia stressed, he was very pleased to be in Taiwan. Also, he had not made his trip secret and he had brought an inter-agency delegation. The U.S. wants to strengthen its economic partnership with Taiwan, both for our own benefit and to show that Taiwan is not being marginalized. The U.S. is prepared to work in creative ways with Taiwan in the economic sphere. However, Bhatia noted, there are domestic political constraints, including the limitation on trade promotion authority. Nonetheless, if the focus is practical, our two sides can take important steps forward leading to stronger economic relations.

¶27. (C) Chen thanked Bhatia for not bowing to Chinese pressure and also for being willing to speak in front of the press in Taiwan. He also expressed appreciation for the U.S. determination to strengthen and deepen the economic partnership and to demonstrate that Taiwan is not being marginalized economically. Saying that he understood the limits and restrictions Bhatia had referred to, Chen suggested that nothing can limit creativity as long as there is sincerity and determination.

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¶28. (C) Bhatia said he shared this view and noted that USTR is a strong advocate for strengthening economic relations with Taiwan. Bhatia invited the Director to comment. The

Director stressed the importance of Bhatia's visit as an expression of the strength of U.S.-Taiwan relations and he expressed hope that AUSTR Stratford would be able to return for follow-up discussions to the meetings of the last two days. Stratford said he would work hard to strengthen ties along the lines discussed by Bhatia and Chen. Chen concluded by saying he was very pleased with the meeting and looked forward to continued close cooperation with the U.S. in enhancing trade and economic relations.

¶29. (U) DUSTR Bhatia cleared this cable.
KEEGAN